COM/LYN/sid **DRAFT** Item H-9
Agenda ID #1141
11/7/2002

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (E 3338-E) for Authority to Institute a Rate Stabilization Plan with a Rate Increase and End of Rate Freeze Tariffs.	Application 00-11-038 (Filed November 16, 2000)
Emergency Application of Pacific Gas and Electric Company to Adopt a Rate Stabilization Plan. (U 39 E)	Application 00-11-056 (Filed November 22, 2000)
Petition of THE UTILITY REFORM NETWORK for Modification of Resolution E-3527.	Application 00-10-028 (Filed October 17, 2000)
William Ahern, Janet Beautz (for Santa Cruz County Board of Supervisors), Charlie Betcher, Robert J. Boileau, William Burns, Alvin Colley, James Crettol, Michael Gallo, Dave Hennessy, Dennis Herrera, Nettie Hoge, Walter Johnson, Fred Keeley, Reggie Knox, William Knox, Bruce Livingston, Elizabeth Martin, Barbara McIver, Robert Meacher, Deidra O'Merde, Elizabeth Sholes, Mary Frances Smith, Ladan Sobhani, Peter Van Zant, Mary Ann Woomer, and Carl Zichella, Complainants, vs. Pacific Gas and Electric Company, Defendant.	Case 02-02-027 (Filed February 27, 2002)

Rehearing on
End of Rate Freeze

INTERIM OPINION MODIFYING DECISION 01-03-082

TO REMOVE RESTRICTION ON USE OF SURCHARGE REVENUES

1. Summary

Decision (D.) 01-03-082 makes permanent a $0.01 per kilowatt-hour (kWh) surcharge, and adds a $0.03/kWh surcharge (for a total surcharge of $0.04/kWh), but restricts application of total surcharge revenues to ongoing procurement costs and future power purchases. This decision modifies D.01-03-082 to remove the restriction on application of total surcharge revenues. (See Attachment A.) The proceeding remains open.

2. Background

In 1996, the California Legislature enacted Assembly Bill (AB) 1890. AB 1890 sought to create a competitive generation market in California for the purpose of eventually reducing electricity rates. Among other things, AB 1890 froze electric rates beginning in 1998 at levels that were in place on June 10, 1996 (with some exceptions) until certain events occurred, or until March 31, 2002, whichever occurred first. The frozen rates were higher than the utilities' then current costs to provide utilities an opportunity to recover some or all costs defined as transition costs during the transition to a competitive market. The generation market became exceptionally dysfunctional, however, and generation prices escalated to extremely high levels.

Because of the extremely expensive wholesale electricity prices and the legislatively mandated rate freeze, Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE) faced serious financial distress in 2000 and 2001.[1] This distress jeopardized system reliability, the State's

[1] San Diego Gas and Electric Company (SDG&E) did not face the same type of financial distress since the legislatively mandated rate freeze for SDG&E had already ended.

economy, and the welfare of the State's citizens. The Commission addressed the crisis by implementing surcharges totaling $0.04/kWh, but restricted application of surcharge revenues to "ongoing procurement costs" and "future power purchases." (D.01-01-018, Ordering Paragraph 2, and D.01-03-082, Ordering Paragraph 2, respectively.) Funds not spent for these purposes were subject to refund.

The $0.03/kWh surcharge adopted in March 2001 was implemented through rates that became effective in June 2001. (D.01-05-064.) D.01-05-064 required that PG&E and SCE amortize over a 12-month period the revenue associated with applying the $0.03/kWh surcharge from the effective date of D.01-03-082 to the beginning of June 2001. This increased the surcharge by approximately $0.005/kWh system-wide for each utility.

D.02-01-001 granted limited rehearing of D.01-03-082 "on the issue of whether rate controls under AB 1890 should be ended." (D.02-01-001, Order Paragraph 2.) The rehearing was assigned to Commissioner Lynch and Administrative Law Judge (ALJ) Mattson.

By Resolution E-3776 dated June 6, 2002, the Commission required that the $0.005/kWh component of the rates established in D.01-05-064 remain in effect after the 12-month amortization period, and ordered that PG&E and SCE track the revenues associated with this component for later disposition and allocation. The total surcharge revenues described in this decision also include revenues from this component of rates.

Parties were notified of possible modification to D.01-01-018 and D.01-03-082 by Ruling dated July 1, 2002. The Ruling stated that one possible approach would be removing the restriction on use of surcharge revenues for the

purpose of returning PG&E and SCE to financial health. Parties were given an opportunity to comment and move for hearing.

Timely comments were filed and served by PG&E, SCE, California Industrial Users (CIU), California Manufacturers & Technology Association, California Retailers Association, California Farm Bureau Federation (Farm Bureau), The Utility Reform Network (TURN), Consumers Union, Aglet Consumer Alliance, and the California Department of Water Resources (DWR). Utilities generally support the modification, and others generally oppose, or suggest conditions. Timely reply comments were filed and served by PG&E, SCE, CIU, Farm Bureau and TURN.

CIU moved for evidentiary hearing, and the California Large Energy Consumers Association responded in support of CIU's motion. The motion was denied. (Ruling dated September 23, 2002.) We affirm the Ruling denying the motion for hearing.

3. Discussion

We restricted use of surcharge revenues as a matter of policy, not as a requirement of law. Opponents of lifting the restriction argue that doing so would be both bad policy and unlawful. We disagree, and are persuaded that we must remove the restriction on the use of surcharge revenues so that they might be used, if necessary as authorized by the Commission, to return each utility to reasonable financial health. Reasonable financial health is necessary so that each utility may serve reliable, safe and adequate electricity at just and reasonable rates.

3.1 Policy Considerations and the Utilities' Obligation to Serve

3.1.1. Financial Distress

We adopted surcharges in early 2001 totaling $0.04/kWh to provide cash flow, facilitate access to capital markets, and prevent a financial collapse. In particular, we adopted the initial $0.01/kWh surcharge to address "serious financial distress [involving] cash flow and short-term access to capital markets…" (D.01-01-018, mimeo., page 14.) We noted that we "have a duty to assure that the utilities are able to continue to procure and deliver power for their customers," and we took action "to ensure that reliable, safe and adequate service is provided to all Californians at just and reasonable rates." (D.01-01-018, mimeo., page 9.)

We adopted the additional $0.03/kWh surcharge after learning that PG&E had exhausted its borrowing capability and was on the verge of default, with a cash balance of $2.5 billion but obligations of $3.3 billion as of March 8, 2001. (D.01-03-082, Findings of Fact 14 and 16, mimeo., pages 42-3.) We also learned that SCE had exercised all available lines of credit and had been unable to extend or renew credit, with a cash balance of $1.6 billion but $1.8 billion in default as of March 8, 2001. (D.01-03-082, Findings of Fact 17 and 19, mimeo., page 43.) We found that "[a]dditional ratepayer money must be provided . . . to prevent utility financial collapse." (D.01-03-082, Finding of Fact 23, mimeo., page 44.) We did this to fulfill our duty to assure that utilities are able to continue to procure and deliver reliable, safe and adequate electricity to their customers.

We observed that this duty derives, *inter alia*, from Public Utilities Code §§ 451, 728, and 761.[2] (D.01-01-018, mimeo., page 9.) Moreover, we found that fulfilling this duty by ordering rate increases above the frozen rate levels specified in AB 1890 was consistent with the Legislature's intent, as stated in AB 1890—in particular §§ 330(g) and 391(a)—which provides, in relevant part:

> "Reliable electric service is of utmost importance to the safety, health, and welfare of the state's citizenry and economy." (§ 330(g).)

> "Electricity is essential to the health, safety, and economic well-being of all California consumers." (§ 391(a).)

We reiterated that adding surcharges did not conflict with the AB 1890 rate freeze, concluding as a matter of law that "[n]othing in AB 1890 provides that if, for unforeseen reasons, in response to additional legislation, the Commission increased rates to prevent the collapse of the electric system, all limits on utility rates are ended." (D.01-03-082, Conclusion of Law 10, mimeo., page 52).

We limited use of surcharge revenues to the unanticipated but urgent, identified needs: ongoing procurement costs and future power purchases. The precise amount of money that was necessary was not known. Therefore, it was also reasonable to track the money in an account subject to refund should it later be determined that the money was unnecessary.

Further, we concluded that we were not prepared to find that the rate control period had ended. (D.01-03-082, Conclusion of Law 6, mimeo.,

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[2] Unless otherwise specified, all statutory references are to the Public Utilities Code.

page 52.) We ordered a change in accounting of costs and revenues over the entire rate freeze period to more properly implement the intentions of the rate freeze. We found it just and reasonable, and consistent with law, to implement a rate increase on top of frozen rates. Given that we had not yet determined whether the rate freeze was over, however, it was reasonable policy at that time to treat surcharge revenues separately from rates and revenues under the rate freeze to minimize confusion over the sources and uses of funds, and allow for later adjustment of the results, if necessary.

3.1.2. Continuing Financial Distress

Unfortunately, the unanticipated financial distress that required extra-ordinary action in early 2001 continues in 2002. Then, the distress was cash flow. Now, the distress is utility creditworthiness and financial health so that each utility is able to reasonably procure and provide reliable, safe and adequate electricity to its customers at just and reasonable rates.

The distress is further reflected in the fact that today – more than a year after PG&E filed for protection under the Bankruptcy Code,[3] and nearly a year after the settlement with SCE – credit rating agencies still do not generally consider either utility to have obtained investment grade credit.[4] While the two utilities are creditworthy now, the Commission is committed to assisting PG&E

[3] This is the settlement of an SCE lawsuit against the Commission in which SCE sought recovery of what SCE alleged were unrecovered power procurement costs. (See *Southern California Edison Co. v. Lynch*, United States District Court, Central District of California, Case No. CV 00-12056–RSWL (Mcx).) The Settlement Agreement is dated October 2, 2001.

[4] Exhibit 34, A.02-05-022 et al. (cost of capital proceedings).

and SCE regain an investment grade credit rating to better enable each utility to provide reliable, safe and adequate service at just and reasonable rates.

The proposed First Amended Plan of Reorganization (POR) for PG&E (jointly sponsored by the Official Committee of Unsecured Creditors and the Commission), and the Commission's settlement with SCE, are each intended to assist the respective utility return to reasonable creditworthiness and financial health. In each case, this may require use of some or all of the surcharge revenues.[5]

These subsequent proceedings will determine, as necessary, what needs require use of surcharge revenues, if any; whether there is any cost or other basis to support specific surcharge levels; and whether the resulting rates are just and reasonable. For example, in this rehearing on the end of the rate freeze, the Commission will determine "whether rate controls [i.e., rate freeze] under AB 1890 should be ended." (D.02-01-001, Ordering Paragraph 2.) The Commission will then "determine the extent and disposition of stranded costs left unrecovered, and will address this in proceedings subsequent to our determinations regarding the rate freeze." (D.02-01-001, mimeo., page 25.) These subsequent proceedings will include evidentiary hearing, if necessary, to consider disposition of stranded costs and whether the resulting rates are just and reasonable. The result may be, for example, to continue the $0.04/kWh

[5] This will be determined in other proceedings. For example, Resolution E-3765 implements a ratemaking structure consistent with the October 2, 2001 Settlement Agreement between SCE and the Commission. The Settlement Agreement uses current rates, including the $0.04/kWh surcharge, to pay costs recorded in a Procurement Related Obligations Account (PROACT). An application for rehearing of Resolution E-3765 has been filed, and Commission action is pending. (Application 02-02-024.)

surcharge for a specific, limited period of time to provide for necessary stranded or other cost recovery, thereby assisting each utility's return to reasonable creditworthy status and financial health. Similarly, in Investigation (I.) 02-04-026 we will consider whether or not the Commission's POR for PG&E results in just and reasonable rates.

Nothing about AB 1890, and its implementation through D.01-03-082, requires that surcharge revenues be limited to paying future power procurement costs. Rather, we adopted surcharges in early 2001 while rate controls under AB 1890 remained in effect based on our authority under the Public Utilities Code to enable utilities to procure and deliver reliable, safe and adequate electricity at just and reasonable rates. The surcharges were independent of AB 1890 rate controls, and were necessary to address unanticipated events and financial distress. The continuing financial distress requires that the Commission remove the restriction on use of surcharge revenues in order to provide adequate means for the Commission to ensure that each utility is able to procure and deliver electricity to its customers. (D.0-01-018, Conclusion of Law 1, mimeo., page 22.) The Commission's first duty is to assure that customers of California public utilities receive reliable, safe service at reasonable rates. (D.01-03-082, Conclusion of Law 2, mimeo., page 51.) No reason stated in the original version of D.01-03-082 justifies or necessitates continuing the restriction given continuing financial distress.

3.2 The Restriction on the Use of the Surcharge Is Not Statutorily Required

In any event, and regardless of the utilities' current financial condition, AB 1890 does not require that we leave the restriction in place for a second reason. The provisions of AB 1890 to which the commenters advert as requiring the surcharge restriction are no longer viable in the wake of more recent legislation.

In pertinent part, AB 1890, as interpreted by the Commission prior to January 2001, provided that transition and procurement costs incurred by the electric utilities during the transition period could not be recovered after the rate

freeze, which was to end by March 31, 2002 at the latest. (§ 368.) As briefly described above, the purpose underlying the AB 1890 scheme was to transition to entirely competitive generation and lower retail rates expeditiously, while allowing the utilities an opportunity to recoup costs they might be unable to recover in a competitive generation market ("transition costs" or "stranded costs"). (§ 330 (l), (t), (v).) In large part, the AB 1890 paradigm was based on the assumption that California's generation market would be fully competitive by 2002.

Recognizing that the benefits of deregulation were not materializing, the California Legislature called a halt to the transition to competitive generation in January 2001, by enacting ABX1-6.[6] Although AB 1890 provided that the utilities' generation assets would be subject to the Commission's rate regulation until those assets underwent market valuation (one method of which would be a sale of the assets), ABX1-6 deleted the market valuation requirement and requires the utilities to retain those generation assets subject to traditional Commission rate regulation until 2006 at the earliest. (§ 377.)

More specifically, ABX1-6 deleted in its entirety former subsection (h), which read as follows:

> Generation assets owned by any public utility prior to January 1, 1997, and subject to rate regulation by the commission, shall continue to be subject to regulation by the commission until those assets have undergone market valuation in accordance with procedures established by the commission. (Emphasis added.)

[6] First Extraordinary Special Session, Bill No. 6.

Similarly, ABX1-6 deleted from § 330(l)(2) the following language:

> and utility generation should be transitioned from regulated status to unregulated status through means of commission-approved market valuation mechanisms. (Emphasis added.)

Finally, ABX1-6 also modified § 377. Prior to amendment by ABX1-6, the section read:

> The commission shall continue to regulate the nonnuclear generating assets owned by any public utility prior to January 1, 1997, that are subject to commission regulation until those assets have been subject to market valuation in accordance with procedures established by the commission. If, after market valuation, the public utility wishes to retain ownership of nonnuclear generation assets in the same corporation as the distribution utility, the public utility shall demonstrate to the satisfaction of the commission, through a public hearing, that it would be consistent with the public interest and would not confer undue competitive advantage on the public utility to retain that ownership in the same corporation as the distribution utility. (Emphasis added.)

As amended by ABX1-6 the section now reads:

> The commission shall continue to regulate the facilities for the generation of electricity owned by any public utility prior to January 1, 1997, that are subject to commission regulation until the owner of those facilities has applied to the commission to dispose of those facilities and has been authorized by the commission under Section 851 to undertake that disposal. Notwithstanding any other provision of law, no facility for the generation of electricity owned by a public utility may be disposed of prior to January 1, 2006. The commission shall ensure that public utility generation assets remain dedicated to service for the benefit of California ratepayers.

These provisions of ABX1-6 clearly and expressly confer on the Commission jurisdiction over regulation of the utilities' retained generation assets, including rates. Such jurisdiction includes, for example, authority to determine whether and to what extent the utilities may recover in rates their investments in these retained generation assets. Accordingly, now that the rate freeze is over,[7] our authority to authorize the utilities to use surcharge revenues is not limited to use for prospective power procurement costs only.

Many of the commenters mischaracterize Commission statements in D.01-03-082 as a declaration that ABX1-6 did not affect stranded cost recovery, the end of the rate freeze, or alter the AB 1890 paradigm. All the Commission stated was that the rate freeze provisions were to remain in effect at the time of that decision (March 2001). The Commission came to no conclusions about what impact ABX1-6 ultimately would have on the AB 1890 provisions.

4. Conclusion

There is no statutory requirement that surcharge revenues be limited to paying the cost of ongoing procurement and future power purchases. Rather, the Commission imposed this restriction, and the Commission may reconsider its reasonableness.

We have broad authority, consistent with AB 1890, to authorize surcharges, or other rate increases, when a utility is faced with unanticipated financial difficulties that impair its ability to fulfill its obligation to serve. In

[7] Exactly when the freeze ended (e.g., January 18, 2001 with ABX1-6, February 1, 2001 with ABX1-1, or March 31, 2002) will be determined in other proceedings in connection with this rehearing. There is no question, however, that the freeze ended no later than March 31, 2002. (§ 368(a).)

addition, and apart from this authority to address unanticipated circumstances, ABX1-6 expressly repealed certain provisions of AB 1890, and restored traditional Commission jurisdiction to regulate utilities' retained generation, including rates. ABX1-6 thus provides an independent basis for concluding that AB 1890 does not restrict use of the surcharge revenues to future power procurement costs only.

Accordingly, we modify D.01-03-082 as provided in Attachment A. The modifications include removing the restriction on use of surcharge revenues applied to the $0.01 / kWh surcharge adopted in D.01-01-018. That is, surcharge revenues collected on or after the effective date of D.01-01-018 are no longer limited to paying ongoing procurement costs and future power purchase costs. While the July 1, 2002 Ruling raised the possibility that D.01-01-018 might need modification, no modification is required of D.01-01-018 given the changes we make to D.01-03-082.

Today's decision, however, only lifts the restriction on use of surcharge revenues. Parties raise the issue of how the revenues might be spent. We do not decide that here. Rather, the extent to which the utilities may use surcharge revenues for other purposes is the subject of other pending proceedings. The utilities, therefore, shall continue tracking surcharge revenues in the authorized balancing accounts, since they remain subject to later adjustment and possible refund as will be determined in other proceedings.

5. Comments on Draft Decision

On September 23, 2002, the draft decision of Assigned Commissioner Lynch was filed and served on parties in accordance with Public Utilities Code Section 311(g)(1) and Rule 77.7 of the Commission's Rules of Practice and

Procedure. Comments were filed and served on _____, 2002 by _____. Reply comments were filed and served on _____, 2002 by _____.

Findings of Fact

1. By Ruling dated July 1, 2002, parties were provided notice and opportunity to comment on possible modifications to D.01-01-018 and D.01-03-082.

2. PG&E and SCE are in financial distress, and while both are creditworthy, neither have obtained an investment-grade credit-rating.

3. PG&E and SCE are currently unable to optimally fulfill their obligation to serve, and to provide safe, reliable, and adequate service.

4. On October 2, 2001, the Commission and SCE entered into a settlement of *Southern California Edison Company v. Lynch*, No. CV-00-12056 (C.D. Cal.) with the intention, in part, of helping SCE return to financial health and regain an investment-grade credit rating.

5. On April 14, 2001, PG&E filed a voluntary petition under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Northern District of California.

6. In connection with PG&E's bankruptcy proceeding, the Commission has filed jointly with the Official Committee of Unsecured Creditors the First Amended POR for PG&E, which, if confirmed by the Bankruptcy Court, is intended to help PG&E return to financial health and regain an investment-grade credit rating.

7. It is reasonable to use some or all of the surcharge revenues to return each utility to reasonable creditworthy status and financial health.

Conclusions of Law

1. Pursuant to Public Utilities Code §§ 451, 728, and 761, the Commission has a duty to ensure that public utilities are able to procure and deliver power to

their customers, and to ensure that they provide reliable, safe and adequate service.

2. The Commission's authority to impose surcharges or otherwise increase rates above the levels set by AB 1890 derives from §§ 451 and 728, and is consistent with the intent of the legislature as expressed in AB 1890, and specifically in §§ 330(g) and 391(a).

3. AB 1890 does not restrict the Commission's authority to impose surcharges or otherwise increase rates above the levels set by AB 1890, when doing so is necessary to respond to unanticipated circumstances.

4. ABX1-6 modified AB 1890 by requiring the utilities to retain their generation assets until at least 2006, and subjecting those assets to traditional Commission rate regulation until at least that time.

5. ABX1-6 modified AB 1890 by restoring to the Commission authority to fully regulate – including rate regulation – the utilities' retained generation assets. This authority includes authority to provide for the recovery in rates of the utilities' investments in those assets.

6. Nothing in AB 1890, modified by ABX1-6 as described above, prohibits the Commission from authorizing the utilities to utilize revenues derived from the surcharges imposed in D.01-01-018 and D.01-03-082 for purposes other than prospective power procurement costs.

7. The restriction of using surcharge revenues only for prospective power procurement costs that is imposed by D.01-03-082 is not statutorily required.

8. PG&E and SCE should continue to track surcharge revenues in a balancing account for later potential disposition.

9. This order should be effective today in order to better enable the return of PG&E and SCE to optimal creditworthy status and financial health.

INTERIM ORDER

IT IS ORDERED that:

1. Decision (D.) 01-03-082 is modified as shown in Attachment A. All other language in D.01-03-082 shall be read and understood to conform to these modifications.

2. The rehearing of D.01-03-082 ordered by D.02-01-001 remains open.

This order is effective today.

Dated _____, at San Francisco, California.

ATTACHMENT A
Page 1

MODIFIED LANGUAGE IN DECISION 01-03-082

The following language in Decision 01-03-082 is modified:

1. At mimeo., page 2 (first sentence in the second full paragraph):

   Original language:

   "After an independent accounting review, an evidentiary hearing and a full opportunity to comment and testify provided to all parties, we conclude that the utilities have established the need for additional revenues on a going-forward basis in order for those utilities to comply with their statutory duty to provide adequate electric service to their customers."

   Replaced with:

   "After an independent accounting review, an evidentiary hearing and a full opportunity to comment and testify provided to all parties, we conclude that the utilities have established the need for additional revenues in order for those utilities to comply with their statutory duty to provide adequate electric service to their customers."

2. At mimeo., pages 15-16 (fifth full paragraph):

   Original language:

   "We also grant an increase of three cents per kWh to be collected by SCE and PG&E, subject to several conditions. Revenue generated by the rate increases will be applied only to electric power costs that are incurred after the effective date of this order. We will direct the utilities to enter the revenues from the rate increases into balancing accounts and the revenues will be subject to refund if, at a later date, we determine that the utilities failed to use the funds to pay for future power purchases. We reiterate that the revenues the utilities have collected and continue to collect from the one-cent per

kilowatt-hour rate increase authorized on January 4, 2001 must be used to pay for power purchases and not for any other costs incurred by the utilities. Upon receipt of and analysis and comment on DWR's revenue requirement, which has yet to be provided to this Commission, we will act promptly to further allocate a portion of these increases to CDWR."

Replaced with:

"We also grant an increase of three cents per kWh to be collected by SCE and PG&E, subject to several conditions. Revenue generated by the rate increases may be applied to costs as necessary to assure continued viability of California's electric power supply, safeguard the viability of the State's General Fund, minimize credit-related supply disruptions, and other purposes as authorized by the Commission. We will direct the utilities to enter the revenues from the rate increases into balancing accounts and the revenues will be subject to refund if, at a later date, we determine that such refunds should be made. Upon receipt of and analysis and comment on DWR's revenue requirement, which has yet to be provided to this Commission, we will act promptly to further allocate a portion of these increases to CDWR."

3. At mimeo., page 17 (second sentence in the first full paragraph):

   Original language:

   "First, to the extent that generators and sellers make refunds for overcollections, those refunds should either be passed through ratepayers or applied to unrecovered power purchase costs, as we discuss more fully below."

   Replaced with:

   "First, to the extent that generators and sellers make refunds for overcollections, those refunds should either be passed through

ratepayers or applied to other purposes as authorized by the Commission."

4. At mimeo., page 21 (fifth sentence in the second full paragraph):

   Original language:

   "For example, as we stated early in this decision, to the extent that generators and sellers make refunds for overcharges, those refunds should either be passed on to ratepayers or applied to capital cost recovery."

   Replaced with:

   "For example, as we stated early in this decision, to the extent that generators and sellers make refunds for overcharges, those refunds should either be passed on to ratepayers or applied to other purposes, including, but not limited to, capital cost recovery, as authorized by the Commission."

5. Findings of Fact 32 and 33, at mimeo., page 45:

   Delete Findings of Fact 32 and 33

   Original Language deleted:

   "32. Revenue generated by the rate increases will be applied only to electric power costs that are incurred after the effective date of this order. The revenues will be subject to refund if, at a later date, we determine that the utilities failed to use the funds to pay for future power purchases."

   "33. The revenues the utilities have collected and continue to collect from the one-cent per kilowatt-hour rate increase authorized on January 4, 2001 must be used to pay for power purchases and not for any other costs incurred by the utilities."

ATTACHMENT A
Page 4

6. Finding of Fact 39 at mimeo., page 46:

   Original language:

   "39. To the extent that generators and sellers make refunds for overcollections, those refunds should either be passed through ratepayers or applied to unrecovered power purchase costs."

   Replaced with:

   "39. To the extent that generators and sellers make refunds for overcollections, those refunds should either be passed through ratepayers or applied to other purposes as authorized by the Commission."

7. Conclusion of Law 13 at mimeo., page 53:

   Delete Conclusion of Law 13

   Original language:

   "13. It is reasonable that revenue generated by the rate increases will apply only to power costs that are incurred after the effective date of this order."

8. Conclusion of Law 14 at mimeo., page 53:

   Original language:

   "14. It is reasonable to direct the utilities to enter the revenues from the rate increases into balancing accounts and the revenues will be subject to refund if at a later date we determine that the utilities failed to use the funds to pay for future power purchases."

   Replaced with:

   "14. It is reasonable to direct the utilities to enter the revenues from the rate increases into balancing accounts and the revenues will be subject to refund if at a later date we determine that such

refunds should be made, or may be applied for other purposes found reasonable by the Commission."

ATTACHMENT A
Page 6

9. Conclusion of Law 17 at mimeo., page 53:

Original language:

"17. To the extent that generators and sellers make refunds for overcharges, it is reasonable to require that those refunds should either be passed onto ratepayers or potentially could be applied to stranded costs."

Replaced with:

"17. To the extent that generators and sellers make refunds for overcharges, it is reasonable to require that those refunds should either be passed on to ratepayers or potentially could be applied to any other purposes as authorized by the Commission."

10. Ordering Paragraph 1 at mimeo., page 56:

Original language:

"1. Pacific Gas & Electric Company's (PG&E) and Southern California Edison Company's (Edison) request for rate relief is granted to the extent set forth herein. The rate surcharge of three-cents per kilowatt-hour (kWh) shall be applied to power costs incurred after the effective date of this decision. The three-cents per kWh shall be added to generation-related rates for PG&E and Edison that are adopted in Ordering Paragraph 1 of our companion decision in this docket only for the purpose of all calculations required by that decision dealing with the transfer of funds to CDWR. (D.01-03-081.) PG&E and Edison shall provide revenues from the generation-related rates and the three-cent surcharge to the DWR immediately, consistent with D.0l-03-081."

Replaced with:

"1. Pacific Gas & Electric Company's (PG&E) and Southern California Edison Company's (Edison) request for rate relief is granted to the extent set forth herein. The rate surcharge of three-

cents per kilowatt-hour (kWh) shall be added to generation-related rates for PG&E and Edison that are adopted in Ordering Paragraph 1 of our companion decision in this docket only for the purpose of all calculations required by that decision dealing with the transfer of funds to CDWR. (D.01-03-081.) PG&E and Edison shall provide revenues from the generation-related rates and the three-cent surcharge to the DWR immediately, consistent with D.0l-03-081."

11. Ordering Paragraph 2 at mimeo., page 536

Original language:

"2. PG&E and Edison shall enter the revenues from the rate increases into balancing accounts and the revenues shall be subject to refund if, at a later date, we determine that the utilities failed to use the funds to pay for future power purchases. The revenues the utilities have collected and continue to collect from the one-cent per kilowatt-hour rate increase authorized on January 4, 2001 shall be used to pay for power purchases and not for any other costs incurred by the utilities. Within five days after the effective date of this decision, PG&E and Edison shall file advice letters to establish these balancing accounts, which will be effective upon approval by the Energy Division."

Replaced with:

"2. PG&E and Edison shall enter the revenues from the rate increases into balancing accounts and the revenues shall be subject to refund, or application for other purposes, as the Commission determines in future proceedings. The revenues the utilities have collected and continue to collect from the one-cent per kilowatt-hour rate increase authorized on January 4, 2001 shall be entered into the balancing accounts. Within five days after the effective date of this decision, PG&E and Edison shall file advice letters to establish these accounts, which will be effective upon approval by the Energy Division."

ATTACHMENT A
Page 8

12. Ordering Paragraph 4 at mimeo., page 57:

Original language:

"4. To the extent that generators and sellers make refunds for overcollections, those refunds shall either be passed through ratepayers or applied to unrecovered power purchase costs. To the extent that any administrative body or court denies refunds of overcollections in a proceeding where recovery has been hampered by a lack of cooperation from a utility, today's rate increases shall also be subject to refund."

Replaced with:

"4. To the extent that generators and sellers make refunds for overcollections, those refunds shall either be passed through ratepayers, or applied to other purposes as authorized by the Commission. To the extent that any administrative body or court denies refunds of overcollections in a proceeding where recovery has been hampered by a lack of cooperation from a utility, today's rate increases shall also be subject to refund."

(END OF ATTACHMENT A)